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***2001 Quadrennial Defense Review: Mechanism for a DoD
Human Resource Management Revolution in Business
Affairs***

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AUTHOR:

**MAJOR CURTIS M. ROGERS, USMC
AY 00-01**

Mentor: Dr. Donald F. Bittner
Professor of History

Approved: _____
Date: _____

Mentor: LtCol J.R. Atkins, USAF

Approved: _____
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Preface

After 13 years in the U.S. Marine Corps, I found myself questioning my desire to continue to serve. During that 13th year of service, I debated resigning my commission in the Corps for the lure of the corporate world. After deep reflection, I decided to remain in the Marine Corps for the challenge and satisfaction of serving with other Marines.

One of the duties of a Marine officer is to counsel both junior officers and enlisted personnel about their future careers in the Corps. Over the last several years, I have witnessed highly skilled Marines at the 8-11 year service point leaving the Corps. These Marines were leaving for civilian jobs with 20-30 % higher salaries and greatly enhanced retirement plans. On several occasions, Marines with those types of opportunities have sought my advice. They were looking for a reason to remain in military service. In these counseling sessions I realized that the best advice for an individual might not be the best guidance for the good of the Marine Corps. This dilemma created a desire to research possible alternatives to shortcomings in our current human resource policies.

The purpose of this paper is to highlight the means that are available to enhance the human resource policies of the military. Many of these concepts are not new, but are actually common practice in the corporate world. While serving on the USMC 2000 Quadrennial Defense Review (QDR) team, I learned of initiatives ongoing since 1996 to bring DoD business practices in line with those commonly used in the civilian business sector. Currently, the primary focus on improving DoD business initiatives is limited to reforming acquisition processes. This paper will recommend an enlarged focus to advance DoD business initiatives to better parallel those of business in the human resource management

sector. If these changes are implemented, the result would be improvement in recruiting, retention, and readiness--areas, which are currently under duress within DoD.

The Internet was used for approximately 90% of the research for this paper. Advances in technology have made web access to DoD publications and directives nearly effortless. A challenge developed in paring and sorting the mass of information available. A key starting point for advancing some of the themes was the Defense Science Board report on Human Resource Strategy. The information and quality personnel available to the Secretary of Defense from the Defense Science Board is truly remarkable.

My thanks to Lieutenant Colonel P. D. Wisniewski, USMC (ret) for his support and ability to act as a sounding board. Also to Dr. D.F. Bittner and LtCol. J.R. Atkins, USAF, my USMC Command and Staff faculty advisors and master's paper mentors, for their help getting me "through the process."

Executive Summary

The year 2000 saw many instances of DoD representatives and publications acknowledging that there are military personnel recruiting and retention problems. These problems raised issues concerning a perceived lack of DoD mission readiness.

Accepting the concept of a Revolution in Business Affairs (RBA) is DoD acknowledgment that over the last twenty years substantial advances in business management practices have been made by the private sector. The 1996 Quadrennial Defense Review (QDR) was a comprehensive review of the full spectrum of DoD functions. As a result of the 1996 QDR, DoD instituted the RBA concept in some of its functions. Specifically, the RBA looked to reform many DoD acquisition processes due to programmatic challenges.

The recommendation of this paper is to build on the RBA concept foundation and extend the RBA to DoD human resource management. Many current DoD personnel policies (e.g., compensation and housing) originated in the Defense reorganization of post WW II. These legacy policies served the U.S well for the last 50 years, but some need revising. Innovation and new ideas are needed to ensure DoD is properly manned for the 21st century. The upcoming 2001 QDR is the vehicle to deliver an RBA in DoD strategic human resource management.

Chapter 1

Requirement for Change in DoD Human Resource Management

*Our military is still organized for **industrial** age operations, rather than for **information** age battles.¹*

-President George W. Bush, Fall 2000

The Department of Defense (DoD) needs to change its human resource management practices. This change is necessary to complete President Bush's vision of a DoD transformation from an industrial age to an information age power. Human resource change is needed to ensure quality personnel are available to man the DoD in the 21st century. A human resource management transformation could be implemented through the concepts inherent in a Revolution in Business Affairs (RBA) as applied to DoD. The 2001 Quadrennial Defense Review (QDR) is the potential vehicle to enact the human resource management RBA for DoD.

Webster's definition of *change* is... "to give a different position, course, or direction."² Certainly, it is recognizable that many people and organizations are reluctant to change. Comfortable habit patterns are established with a thought of "why change something if it works?" As an individual completes multiple tours of duty in the U.S.

¹ Alexis Simendinger, "What's at Stake," *The National Journal*, 30 September 2000, URL: < http://www.nexis.com?research/search/doc...tb&_md5=fb87d26d9208c3ae58659a9b706acc2f >, accessed March 2001, 23.

² *Webster's Ninth New Collegiate Dictionary*, unabridged, (Springfield, Massachusetts: Merriam-Webster Inc., 1985), 225. under the word "**change**."

armed services, change can be viewed as an integral and inherent part of military life. For example, at the tactical level Marines are noted as an innovative service, willing to try new ideas while constantly striving to stay one step ahead of their opponents. However, it appears that military organizations at each higher level of the institution increase resistance to change exponentially.

The Goldwater-Nichols legislation of 1986 is an excellent example of the difficulty of undergoing macro level change in DoD. Due to some of the undesired results of Vietnam, Desert I, and Grenada in regards to “joint” operations between the services, Goldwater-Nichols was enacted by Congress. In essence, this forced better synchronization between the services when planning and executing joint campaigns. The law’s proposal was met with much dissension from the services and the Secretary of Defense. The change to a more “joint” force was resisted. However, the success of joint operational campaigns such as Just Cause, Desert Storm, and Provide Comfort are proof of Goldwater-Nichols success.³

It is unclear if current personnel management challenges are of sufficient parallel to force the same level of change as Goldwater-Nichols. Specifically, the issue under consideration is whether sufficient change can be “required” to align DoD personnel policies with the progress in the civilian sector in regards to accepted successful business practices of the 21st century.

A “Revolution in Business Affairs” is recognition by DoD officials that over the last twenty years the civilian sector has vastly improved its business’ practices. Areas

³ Peter W. Chiarelli, “Beyond Goldwater-Nichols,” *Joint Force Quarterly*, Autumn 1993, quoted in Command and Staff College, *Warfighting...from the Sea: Syllabus and Readings Joint and MAGTF Organization*, (USMC: Academic year 2000-2001), 21-23.

such as acquisition reform, financial management, competitive outsourcing, and reduced cycle-time logistics have made great strides in the last twenty years. Chapter three will include a more detailed discussion of the RBA concept as it applies to DoD. The overarching concept is to affect a Revolution in Military Affairs (RMA) funded by the implementation of an RBA.⁴

McNamara's Revolution

In 1960, at 41 years of age, Robert S. McNamara was the president of the Ford Motor Company. McNamara earned the job as Ford president due to his hard work and reputation as a business “whiz kid.”⁵ Due to McNamara’s prestigious resume, president-elect John F. Kennedy recruited him to be the eighth Secretary of Defense in January 1961.⁶

One of McNamara’s first actions as Secretary of Defense was to consult with the Joint Chiefs of Staff (JCS) to determine what budget changes were needed. McNamara concluded that the answers from the JCS seemed realistic or the product of much thought. Specifically, the issue of the number of Polaris submarines to request came up for discussion. The answer given was seven. When McNamara queried why seven, he was told that seven was the number the House Appropriations Committee liked. McNamara’s response: “It’s not logical.”⁷

DoD Budgeting in 1960 consisted of the White House providing the services a

⁴ Jacques S. Gansler, “Building on the Momentum: The Revolution In Business Affairs,” [URL:<www.acq.osd.mil/ousda/speech/ndia_lunch.htm>](http://www.acq.osd.mil/ousda/speech/ndia_lunch.htm), accessed December 2000, 5.

⁵ Deborah Shapely, *Promise and Power, The Life and Times of Robert McNamara* (USA: Little, Brown and Company, 1993), 79.

⁶ *Ibid*, 78.

⁷ *Ibid*, 99. The point being made is that in 1961 many programs were funded for political reason and were not totally based on mission requirements.

portion of the budget and the services deciding where to spend the money with little consideration for the DoD “big picture.” There was no centralized focus or control. McNamara’s response was to create a planning, programming, and budgeting system (PPBS). The PPBS was based on economic principles and management accounting. It was used as a tool to identify mission requirements, perform cost analysis, and make decisions on what programs to fund.⁸

Prior to McNamara’s tenure, the Rand Corporation briefed the PPBS approach to the USAF; the Air Force’s response was that “the plan was too revolutionary and threatening.” Regardless, McNamara directed that the PPBS be instituted in less than a year. “The revolutionaries were taking control, and finally the runaway U.S. Defense program would be rationalized.”⁹ As a result of such sweeping initiatives, McNamara was characterized as an “IBM computer with legs.” *Business Week* reported he was...“a prize specimen of a remarkable breed in U.S. industry-the trained specialist in the science of business management.”¹⁰

McNamara’s changes were not automatically accepted by the services. His proposals were met with doubt and dissension.¹¹ The services did not want to change the status quo. In essence, McNamara’s “revolution” or changes to the business affairs aspect of DoD was resisted and difficult to implement. Today, McNamara’s PPBS process is prevalent throughout DoD; the basis of program development is cost

⁸ *Ibid*, 100.

⁹ *Ibid*, 101.

¹⁰ *Ibid*, 104.

¹¹ *Ibid*, 104.

effectiveness. McNamara's "revolution" is a vital **precedent** to extending the RBA concept to strategic human resource management.

Challenges to Human Resource Management

The concept of viewing the DoD as a business can be controversial. Trying to quantify the importance of winning our nation's wars is a difficult task. In a 1998 speech to the National Defense Industrial Association, Jacques S. Gansler, Under Secretary for Defense (Acquisition and Technology), commented on the DoD as a business. Mr. Gansler relayed that "the DoD is not as I have said, a business, but in those areas where our efforts mirror private sector initiatives we must examine, adapt, and learn."¹²

The year 2000 produced a vast amount of literature identifying the deficiencies of the armed services in meeting recruiting and retention goals. Published testimony from the individual service chiefs, service periodicals, and professional military magazines highlighted the recruiting and retention challenges. The strong economy, increased deployment requirements, and increased college attendance are some of the items contributing to the recruiting and retention problems.¹³ The U.S. Commission on National Security/21st Century postulated in September 1999, that the American public would not be as willing to serve in the future due to the prospering U.S. economy. The commission was also concerned how DoD will handle future retention and recruitment issues based on its current force structure and readiness requirements.¹⁴ In the past year, the Joint Chiefs of Staff (JCS) argued that the reason DoD has not been able to meet all

¹² Jacques S. Gansler. "Building on the Momentum," 4.

¹³ Joint Staff, Readiness Panel Feeder Issues, subject: "Recruit and Retain," December 2000, 1.

¹⁴ U.S. Commission on National Security/21st Century, *New World Coming: American Security in the 21st Century*, 1999, 129. Commonly referred to as the Hart-Rudman, this government sponsored commission was chartered to provide a comprehensive review of U.S. national security.

of its military personnel recruitment and retention goals was due to military personnel being paid much less than civilians with similar jobs. In February 1999, Steven Kosiak, director of budget studies for the Center for Strategic and Budgetary Assessments, testified to the House Armed Services Committee (HASC). Mr. Kosiak's testimony was that, "Congress is right to take these negative trends in recruitment and retention seriously...[T]here is a need to act promptly, to guard against the danger that the services' very real – but still relatively limited – recruitment and retention problems might quickly escalate."¹⁵ All of the discussed issues are symptomatic of the macro personnel management problems and ensuing challenges in DoD.

In conjunction with recruiting and retention, readiness is the third main issue that received attention over the last year within DoD. There is a perceived lack of overall mission readiness among the armed forces. The services have identified many issues that contribute to the readiness challenge. Some of these contributors are increases in operational tempo (OPTEMPO), operations per year; personnel tempo (PERSTEMPO), personnel deployments per year; and mission creep, tasking beyond standard military missions--all of which have a definite linkage to recruiting and retention problems.¹⁶ The increases in these contributors are further indications of the larger personnel crisis ongoing within DoD.

The importance of retaining quality personnel for DoD is best illustrated by Marine Commandant General J.L. Jones' testimony to the House Armed Services

¹⁵ Steven Kosiak,, "Changing Military Pay and Retirement: Congress Needs to Look Before it Leaps," <url: http://www.csbaonline.org/4publications/archive/t.19990225.military_compensation/t.199.>, accessed Fall 2000. 1.

¹⁶ Joint Staff. Readiness Panel Feeder Issues, subject: "Recruit and Retain," 2.

Committee in March 2000. “ People will continue to be the most important pillar of our readiness.”¹⁷ In order, to better care for its personnel, **DoD should use the current negative trends in recruiting, retention, and readiness as leverage to affect substantial human resource management change**. The debatable point is whether there is a sufficient personnel crisis to warrant action.

DoD should accept the need for change in personnel management policies for the betterment of all military services. However, discussion of all required policy related changes is beyond the scope of this paper. One of the most visible areas of human resource management is compensation policy and the ensuing discussion will focus on this. Recommended changes to compensation practices will be presented to illustrate the type of adjustments required to affect an RBA in human resource management. The recommended way to institute this change is to use the Quadrennial Defense Review (QDR) to mandate change based on an expansion of the RBA ongoing in DoD.

¹⁷ Genera James L Jones, Commandant of the USMC. “ Testimony to Congress,” Washington, DC, 15 March 2000, URL: http://hqinet001.hqmc.usmc.mil/PP&O/War_Room/CMC_Testimony/000315_Testimony>, accessed January 2001, 4.

Chapter 2

Quadrennial Defense Review

*An important element of our policy toward our people must be to provide them with a quality of life commensurate with the sacrifices we ask them to make and with the alternatives available in the private sector.*¹⁸

–Secretary William Cohen, 1997 QDR report

Since the end of the Cold War, the U.S. has conducted four broad-based defense reviews. These reviews were the 1991 Base Force Review, the 1993 Bottom-Up Review, the 1995 Commission on Roles and Missions of the Armed Forces, and the 1997 Quadrennial Defense Review (QDR).¹⁹ The QDR incorporates parts of the prior reviews and establishes the requirement for permanent DoD review through congressional legislation. The 1996 legislation establishing the QDR requirement comes from Chapter 2 of Title 10 U.S. Code. It was amended by the National Defense Authorization Act for Fiscal year 2000 to include section 118.

(a) Review required.- The Secretary of Defense shall every four years, during a year following a year evenly divisible by four, conduct a comprehensive examination (to be known as a "quadrennial defense review") of the national defense strategy, force structure, force modernization plans, infrastructure, budget plan, and other elements of the defense program and policies of the United States with a view toward determining and expressing the defense strategy of the United States and establishing a defense program for the next 20 years. Each such quadrennial defense review shall be conducted in consultation with the Chairman of the Joint Chiefs of Staff.²⁰

¹⁸ William S. Cohen, Secretary of Defense, "Report of the Quadrennial Defense Review," (Washington, DC: GPO, May 1997), 37.

¹⁹ *Ibid*, 1.

²⁰ "National Defense Authorization Act for Fiscal Year 2000; SEC 901 Permanent requirement for Quadrennial Defense Review," URL: <http://147.254.60.137/qdr_references/legislation.htm>, accessed Fall 2000, 1.

The 1997 QDR had significant impacts upon all branches of DoD. An example of the authority of the QDR was the mandate to cut over 27,000 United States Air Force (USAF) active duty personnel from force structure, decrease the United States Army (USA) by 15,000 personnel, and to reduce United States Navy (USN) combatant ships from 128 to 116.²¹ Secretary of Defense Cohen's executive summary of the spectrum of 1997 QDR decisions is in appendix A.

The 1997 QDR recognized the Defense Department's need to take on some aspects of the ongoing RBA in the private sector. However, the challenges inherent in personnel issues were not the hot topics in 1997 that they are in 2001. The RBA focus of the 1997 QDR was primarily on the application of business principles to infrastructure and acquisition issues. The report was commendable for its recommendation to use the RBA to reorganize infrastructure, institute acquisition reform, invoke outsourcing and privatization of support activities, and integrate commercial technology. Recognizing the need to study the advances made in the private sector in regards to maintaining its competitive edge in the global marketplace, Defense Secretary Cohen established a Defense Reform Task Force to be administered by the Office of the Secretary of Defense (OSD).²² Unfortunately, that QDR report did not recommend or require extending the RBA to human resource management efforts, but it did establish a **precedent** for using the RBA concept to advance DoD practices.

The 2001 QDR effort will be task organized into eight sub-panels in conducting the review. One of the eight is the Readiness sub-panel. Recruiting and retaining

²¹ Cohen, Quadrennial Defense Review, vii.

²² *Ibid*, ix.

sufficient personnel to maintain the required readiness to execute the National Military Strategy is one issue the Readiness sub-panel will consider. Specifically, the panel will look at the full range of personnel issues affecting DoD recruiting and retention, with the resulting impact on readiness. The findings of the Readiness sub-panel will be used for analysis by the Human Resources panel, another one of the eight QDR sub-panels.²³ The Readiness or Human Resources sub-panels are instruments within the QDR to recommend substantive change to human resource management

The 2001 QDR process will be one all of the services must and will take seriously. Each service will allocate between 300 - 800 personnel for the three months to complete the process. As a new presidential administration takes office, the 2001 QDR will have the opportunity to explore “fresh” ideas. With a new administration will come a new Secretary of Defense and new guidance for DoD. This time of change presents an opportunity to introduce new ideas and act upon them.

²³ Joint Staff, subject: “Joint Staff QDR Readiness Panel Charter,” 14 Aug 2000, 3. The eight sub-panels of the QDR are Strategy and Risk Assessment; Force Generation, Capabilities and Structure; Modernization; Readiness; Human Resources; Information Superiority; Transformation, Innovation, & Joint Experimentation; Sustainment, Strategic Mobility, & Infrastructure.

Chapter 3

Revolution in Business affairs

*Of course, we know how bad we really are when it comes to a lot of our business practices, but we tend to think of ourselves and compare ourselves in the context of what these companies do, and we look rather pale in comparison to them.*²⁴

*- John J. Hamre
Deputy Secretary of Defense, Jan 2000*

A **Revolution in Business Affairs (RBA)** is an acknowledgment that over the past twenty years great strides have been made in the civilian sector in improving business practices. DoD's goal is to leverage these improvements in the private sector for use in DoD business processes. The "RBA" is not specifically defined in publications used by the DoD. Rather, it is referred to in loose terms that capture its essence as a concept, as opposed to a doctrinal requirement. An extract on the RBA from Secretary of Defense Cohen's report of the 1997 QDR stressed:

We also need to take advantage of business process improvements being pioneered in the private sector. Over the past decade, the American commercial sector has reorganized, restructure, and adopted revolutionary new business and management practices in order to ensure its competitive edge in the rapidly changing global marketplace. **It has worked.** Now the department must adopt and adapt the lessons of the private sector if our armed forces are to maintain their competitive edge in the rapidly changing global security arena.²⁵

The wording of the means to apply the RBA varies by organization and the context of the program involved. The RBA can be a method of identifying the need for business practice changes with an overarching conceptual term.

²⁴ John J. Hamre, Deputy Secretary of Defense, "The Revolution in Business Affairs," remarks at the Future Naval Leaders Conference, Chantilly, VA, 18 January 2000, URL: < <http://www.defenselink.mil/speeches/2000/s2000000118-depsecdef.html> >, accessed December 2000, 1.

²⁵ Cohen, Quadrennial Defense Review, ix.

OSD Organizations

The Under Secretary of Defense for Personnel and Readiness (USD (P&R)) is organized under the OSD umbrella to manage DoD personnel issues.²⁶ The Assistant Secretary of Defense for Force Management Policy (ASD(FMP)) is the sub-component of USD(P&R) specifically tasked to develop policy and plans regarding military personnel management. The ASD(FMP)'s primary authorization function is to communicate with the DoD components. The ASD(FMP) lacks the true measure of DoD power - resource control.²⁷ The DoD directive for USD(P&R) is in appendix B and its authority limitations replicate those of the ASD(FMP) directive.

The 1997 QDR established the requirement to conduct a review of Defense reform efforts. The OSD Defense Reform framework establishes the guidelines for the RBA in DoD. The following is Secretary of Defense Cohen's view of the need for Defense Reform.

I have established a Defense Reform Task Force to review the Office of the Secretary of Defense, Defense agencies, DoD field activities, and the military departments and to look for ways we can consolidated functions, eliminate duplication of effort, and improve efficiency. The Task Force will consult with Congress and with business executives who have successfully streamlined their corporations in recent years...I have directed the Task Force to submit its report and findings to me by November 30, 1997.²⁸

²⁶ Department of Defense, "DoD Directive 5124.2 Under Secretary of Defense for Personnel and Readiness," URL: < <http://web7.whs.osd.mil/dodiss/directives/dir7.html> >, accessed December 2000.

²⁷ Department of Defense, "DoD Directive 5124.5 Assistant Secretary of Defense for Force Management Policy," URL: < <http://web7.whs.osd.mil/dodiss/directives/dir7.html> >, accessed December 2000.

²⁸ Cohen, Quadrennial Defense Review, ix.

The November 1997 report was titled Defense Reform Initiatives (DRI). An update of the report was produced in 2000 and is included below.

Reform - Why Do We Need It?

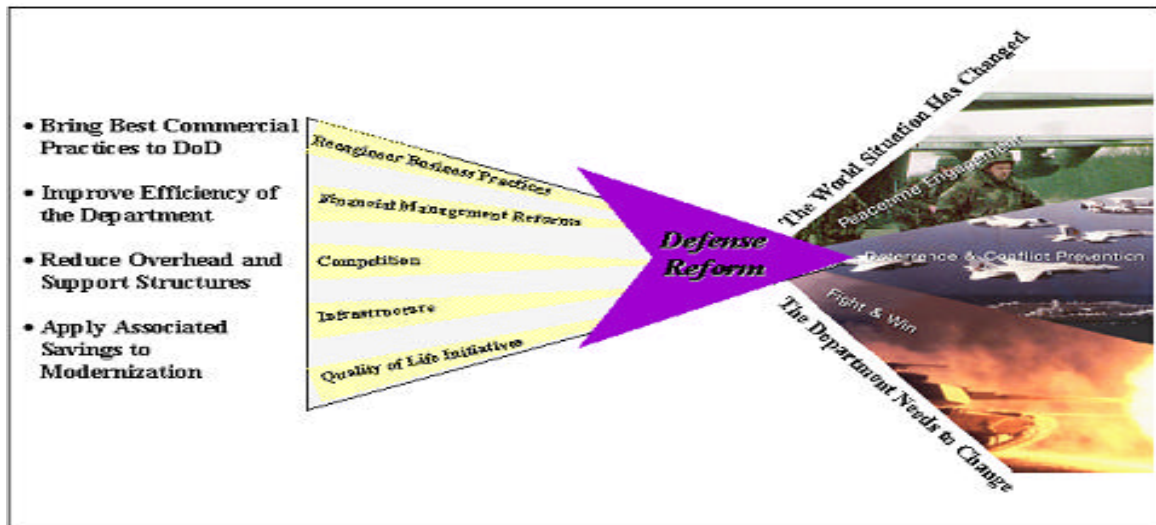


Figure 1²⁹

Figure 1 is a depiction of the goal of the Defense Reform effort. Since 1997 progress has been made in advancing some of the functional areas listed on the chart. For example, the category of Re-engineering Business Practices has experienced an 83% reduction in workload due to changes in the purchasing of low-cost commercial goods and services. The financial management efforts resulted in outdated finance and accounting systems being modernized and consolidated. Competitive sourcing is a critical enabler and provides market mechanisms to improve quality, reduce costs, and respond to customer needs. Efforts in the infrastructure area have enhanced leasing of excess facilities, improved utility and energy management, and housing and utilities privatization have shown progress. QOL initiatives are as follows: increasing pay and

²⁹ Defense Reform Initiative, "Defense Reform On the Road to Excellence," URL: <http://www.defnslink.mil/dodreform/overview.htm>, accessed December 2000.

retirement benefits for service members, shifting travel burdens from the traveler to the government, and eliminating “out of pocket” housing costs for service members.³⁰ The implementation of the RBA concept has had positive results.

To summarize, there are three departments that fall under the auspices of the Office of the Secretary of Defense (OSD) that could implement or affect human resource management change. These are the Defense Reform Task Force, Under Secretary of Defense, Personnel and Readiness (USD(P&R)), and the Assistant Secretary of Defense for Force Management (ASD(FMP)). These three agencies are similarly tasked to monitor initiatives and policy, make recommendations, and collect information. Their basic weakness is a lack of directive control over the services with regard to personnel. For USD(P&R) and ASD(FMP), communication with the service components is the limit of their directive authority.

The blueprint of the DRI was the impetus for the RBA efforts that are ongoing in each service branch of DoD. This establishment of a goal of adopting current business practices is crucial to DoD future progress. It is also one of the few printed references acknowledging that some DoD functions are like a business. The reality is that in today’s economy DoD operates and competes for limited resources. Like civilian businesses, DoD competes for personnel and resources. The 1996 – 2000 DoD establishment of RBA initiatives is key to establishing the **foundation** of advancing the RBA process to substantive human resource management change.

³⁰ *Ibid*, 1.

Service RBA Efforts

Due in part to the 1997 QDR and Defense Reform Task Force requirements, all of the services established sections responsible for conducting the RBA within their functional areas of DoD. The U.S. Navy created one to enact its vision of the RBA, as noted below:



Our vision must be that Department of Navy business practices typifies those of the best public and commercial enterprises. By committing Revolution in Business Affairs, which complements Revolution in Military affairs, the Navy will become a more combat-effective and cost-efficient force postured for the 21st Century.³¹

³¹ USN, "Department of the Navy Revolution in Business Affairs," URL:< [http: www.rba.hq.navy.mil](http://www.rba.hq.navy.mil) >, accessed December 2000, 1.

The USMC endorsement of the RBA concept is best summarized by a January 1998, White Letter (Commandant Directive), “Better Business Practices:”

Charged all Marines, military and civilian, to **embrace** the revolution in business affairs, and asked for their support as the Marine Corps looks at working smarter through regionalization, competitive sourcing, and privatization. The reality of constrained resources, personnel cuts required in the Quadrennial Defense Review and overhead reductions mandated by the DRI requires that we aggressively seek greater efficiencies.³²

These service frameworks are a crucial step to recognizing advances in the civilian sector and to advance the RBA concept into the human resource management areas. To date, these military RBA sections have concentrated primarily on acquisition reform.

RBA Future

As previously highlighted, President Bush’s new administration team has the opportunity to inject fresh ideas into DoD. In March 2001, new Defense Secretary Donald Rumsfeld announced a plan to implement a new strategy to manage the Pentagon’s bureaucracy. The intent is to construct a model that more closely represents a corporate board of directors. In the new model, the secretaries of the Army, Navy and Air Force, the deputy secretary of defense, the pentagon acquisition chief, and Secretary Rumsfeld will convene as a collective body to hash out decisions on transforming DoD. This approach offers prospects for significant change and reform since the Pentagon leaders would be acting as a team and not heads of separate organizations.³³ Secretary

³² USMC, “Revolution in Business Affairs,” URL: < <http://www.mcbh.usmc.mil/bri/revolution.htm> >, accessed December 2000, 1.

³³ Robert Holzer, “Rumsfeld promotes Corporate Model,” *Defense News*, 12 March 2001, 3.

Rumsfield's switch to a corporate model of management is another example of the continuing RBA within DoD.

The precedent to establish an RBA in human resource management exists within DoD. Revolutionary change to business practices was enacted during the McNamara era of the 1960's. The RBA process was called upon again in 1997, to revamp the acquisition practices of DoD. One of the criticisms of the Defense Science Boards Task Force on Human resources strategy is that DoD,...“does not have the authority and tools to integrate the management of its human resources.”³⁴ The foundation laid from the 1997 RBA is the basis upon which to expand the RBA to the personnel management field. The organizations and tools to incorporate the RBA are in place. The missing ingredient is directive authority.

³⁴ Defense Science Board, *The Defense Science Board Task Force on Human Resources Strategy*, (Washington, DC: GPO), February 2000. The DSB is a Federal Advisory committee established to provide independent advice to the Secretary of Defense. The board's members are composed of OSD personnel, retired military personnel, and “Think Tank” organizations such as Rand.

Chapter 4

Compensation

*We support efforts to improve our military pay and retirement systems and to address the recruiting and retention problems. We must not, however, make promises of this kind to the troops without carefully considering how much they will cost and where the money will come from.*³⁵

-Senate Armed Service Committee, 1999

There are many sub-elements of human resource management. Areas such as intangible employee benefits, structure of the work place environment, and other quality of life issues are very important. However, the most visible and influential area of human resource management is the practices a business or institution implements in regard to compensation. The DoD compensation model is composed of four pillars: Basic Pay, Basic Allowance for Housing, Basic Allowance for Subsistence, and Retirement Pay. Admittedly, areas such as medical and dental coverage, commissary and exchange privileges, and the survivor benefit plan are part of compensation, but do not have the same visibility as direct financial compensation. This discussion will focus on the four primary pillars of DoD compensation. Specifically, the legacy of the pillars and possible improvements will be discussed.

In any discussion on DoD compensation systems, it is important to remember the current system's design was determined in 1947.³⁶ As with many DoD functions, the compensation system is a continuing legacy of post WW II reorganization. The context

³⁵ John Warner, U.S. Senator, Senate Armed Services Committee report, "The Soldier's, Airmen's and Marines' Bill of Rights act of 1999." (February 1999) URL: < <ftp://ftp.loc.gov/pub/thomas/cp106/sr001.txt> >, accessed December 2000, 7.

³⁶ Rand, "Reforming the Structure of the Military Compensation System," URL:< www.RAND.org/publications/RB/RB7513 >, accessed December 2000.

of the times of 1947 was much different than in 2001. The views of society, information to compare employment opportunities, education, the role of women in the workforce, and the technical skill sets required of military service are just some of the many areas that have changed. As with any legacy system, it is much easier to institute partial fixes than sweeping changes.

In order to compete in the 21st century, DoD must change some of its current compensation policies and procedures. When compared to the compensation systems of the civilian world, the DoD system is antiquated. Human resource management comparison interviews were conducted with management personnel and employees from companies and organizations such as Logicon, Concord Telephone, Price Waterhouse, Ford Motor Company, Morgan Stanley Dean Witter, and the N.C. Department of Public Instruction. The interviewees expressed views that their companies' compensation systems varied greatly from the DoD model. Personnel also indicated that DoD compensation packages seemed inconsistent with the ones offered by their companies.

Some of the inconsistencies mentioned were the military's practice of salaries based solely on years of service, increased pay for having dependents and not skills, and a company where eligibility for retirement compensation came only at the 20-year mark. Personnel interviewed found the DoD policy of increased pay for having dependents puzzling. There were also questions regarding the fairness of the policy. The interviews also covered company-housing support provided. In contrast to DoD, none of the interviews produced evidence of the company providing physical housing. All of the interviews indicated that housing support was the individual's responsibility to manage

from their salary. A portion of those interviewed indicated that their company provided a stipend to account for increased housing costs in more expensive geographical areas.³⁷

Frankly, many DoD compensation practices seem quite antiquated when compared with today's accepted civilian practices. A key reason the civilian companies are able to adapt their systems is that the compensation control measures are the responsibility of a flexible management system. To a large degree, Congress and the accompanying political environment control the DoD system.

Basic Pay

Basic Pay composes the largest portion of all servicemen's salaries. The pay table is structured so that basic pay increases with rank and years of service. Every DoD member of the same rank and years of service receives the same basic pay, regardless of duty requirements. This is sometimes referred to as a "one size fits all" approach. Basic pay is the only portion of compensation used for retirement calculations. Except for special pays or bonuses, it is the only compensation element that is taxable.³⁸

Special Pay

The need to increase compensation to retain certain MOS fields is not new to DoD. There has long been a concept for bonuses or special pays. Special pay is given today in areas where the military is suffering critical skill shortages. "Special pay" is a name given to funds Congress can authorize for MOS fields that are suffering retention difficulties. Flight pay, flight bonuses, and selective re-enlistment bonuses are some

³⁷ Interviews by author, Fall – Winter 2000. Over approximately a five month period the author interviewed various employees from companies in the U.S. about their company's' human resource management practices. The personnel interviewed varied in job description from senior management to blue-collar labor. Hereafter the entry will be cited as 20-person interview.

³⁸ *Army Times*, "Basic Pay and Benefits, Basic Pay and Allowances," 5 April 1999, 2.

examples of special pays.³⁹ The largest deficiency of special pays is that they are a reactionary tool and do not offer suitable flexibility to preclude wage structure retention problems. Typically, the services have to recognize a MOS personnel deficiency, notify Congress, then wait for Congress to authorize solutions. Certain personnel receiving special pays is indicative that the current system of base pay does not meet the full spectrum of requirements.

The services also have different views of special pays due to the differences in service MOS composition and retention goals. The USAF has a requirement for a more specialized force and requires lower turnover rates than the larger infantry and armored forces of the U.S. Army. Thus, the “one size fits all” approach does not offer the compensation flexibility required by the services.

An USMC MARADMIN (Marine Administrative message) on the fiscal year (FY) 00 Changes to Military Compensation illustrates the conflict the services have:

While the MARINE Corps views enhancements to compensation as vital to maintaining a quality all-volunteer force, we are concerned about the proliferation of special and incentive pays that target specific groups within the Marine Corps. We would rather see continued across the board pay raises that will assist all Marines. Therefore, the Marine Corps does not plan to implement two new special pays that the FY00 NDAA approved at the request of the other services... In both cases the Congress, although authorizing the pay, did not appropriate additional funds for them. If used, both would have to come at the expense of existing programs. Currently, we are not experiencing significant retention challenges in either of these fields. Consequently, these two pays are not the best way to expend scarce resources.⁴⁰

³⁹ *Ibid*, 5.

⁴⁰ Commandant of the Marine Corps message to MARADMIN, subject: “FY00 changes to military Compensation,” 022157Z March 2000. The two new special pays authorized by Congress were Judge Advocate General Continuation Pay and Career Enlisted Flyer Incentive Pay.

Intuitively, a **contradiction** can be seen in a system that offers re-enlistment bonuses and incentive pay yet labels itself a base pay system.⁴¹ The current challenges of recruiting, retention, and readiness seem to indicate that the “one size fits all” approach of the base pay system is not working. Also, advertising a base pay system while compensating some MOS fields differently can adversely affect inter-employee morale. The employees that do not receive special pays or bonuses develop a sense of jealousy or non-appreciation for their effort. A skill pay system that is pre-identified to employees creates a healthier work environment.

The institutional delay in implementing the special pay system is a deficiency in solving or stopping the loss of skilled personnel. Predominantly, additions or changes to incentive pays occur only after sufficient personnel have left the service to cause severe shortages.

Basic Allowance for Housing (BAH)

The policy of the military providing housing for its members can be traced back to the establishment of frontier posts of the 19th century. Then, and in the early 20th century, military members and their families were placed in isolated locations with no off-base housing.

There is also substantial infrastructure required to maintain the homes. As the homes age the maintenance costs increase as well. Today, the majority of DoD housing

⁴¹ LtCol J. A. Bruder, USMC, CMC Fellow, “The Department of Defense Military Manpower System; Wartime Assumptions-Peacetime Conditions,” (Santa Monica, CA: RAND), June 2000, 9.

units were constructed from 1950 – 1960.⁴² This means that the houses are almost or are over a half-century-old.

When DoD was established in 1947, society's views of military service as a profession were quite different. There were some who believed service in the military would lead to exposure to many negative influences, such as prostitution and over indulgence in alcohol.⁴³ Also, the traditional male - female role of breadwinner - homemaker were the norm. Salaries needed to be sufficient to provide income and housing for the traditional family unit. In an effort to entice more mature servicemen with families into career service, the Basic Allowance for Quarters (BAQ) with dependents entitlement was created.⁴⁴

BAH is a component of DoD compensation designed to provide members financial resources for housing. The amount of compensation increases with rank and is also higher if the member has dependents. The system has loopholes and intricacies that are in need of updating. The term BAH was recently adopted as a combination of Basic Allowance for Quarters (BAQ) and Variable Housing Allowance (VHA) to include all

⁴² Pamela Twiss and James Martin, "Quality of Life and Shelter: The history of Military Housing Policy and Initiatives Since Adoption of the All-Volunteer Force Concept (1973-1996)", URL: < <http://www.marywood.edu/research/quality/qolsum.htm>>, accessed July 2000, 4-5.

⁴³ Elliot Cohen, *Citizens & Soldiers The Dilemmas of Military Service* (New York: Cornell University Press, 1985), 163.

⁴⁴ *Supreme Court Cases*, " The Dynamic Court (1930-1999), Supreme Court Case No. 71-1694 *Frontiero v. Richardson*, " (Washington, DC: GPO, 1999), 5-6.

elements of the housing allowance under one category label. BAQ was a standard compensation by grade for housing costs. VHA was a compensation given in varying amounts, independent of grade, to account for different geographical costs.

BAH's outdated design is best illustrated by an U.S. Supreme Court case from 1973. A female service member challenged the fairness of the BAQ (BAH) system due to the requirement for her husband to meet a certain dependency level in order for her to qualify to receive BAQ.⁴⁵ Today there is no requirement for a spouse to meet any financial dependency criteria. This case is a prime illustration of a system designed for the times of the 1950s, not the 1970s much less the 21st century.

The practice of DoD providing housing continues into the present day, although the U.S. infrastructure has changed dramatically. The government continues to provide housing and housing allowances based on the historical obligation of providing adequate living accommodations to military personnel.⁴⁶ The requirement for military personnel compensation to include adequate on-base housing or be able to afford adequate off-base is certainly a compensation issue that effects recruiting, retention, and readiness. DoD needs to remove itself from the "landlord" aspect of base housing and focus on a more cost effective means to ensure military salaries encompass personnel housing needs.⁴⁷

BAH Equity

A fundamental business question would be the fairness of providing housing to only a third of an organization's employees. Certainly, if the benefit is not available to

⁴⁵ Ibid, 1.

⁴⁶ GAO/NSIAFD-89-134, *Military Housing Allowances*, (Washington, DC: U.S. GAO June 1989), 5.

⁴⁷ Paul Taibl, Business Executives for National Security (BENS) Special Report, "Outsourcing & Privatization of Defense Infrastructure," URL: < <http://www.bens.org/pubs/outsrce.html>>, accessed October 2000, 13.

all then it should be offset by additional financial compensation. That is not the case today, nor has it been over the last thirty plus years for DoD. Figures vary by year, but the latest data for 1999 shows a financial deficit of 19% for military members residing off-base, as compared to those members who live on-base.⁴⁸ Historically, DoD has never been capable of providing housing for all its members. Congressional appropriations have always provided insufficient housing funds for on-base housing. Statistics from 1997 show that 70% of all DoD families were housed off-base.⁴⁹ What prospering company in 2001 provides employee programs with such a poor success rate?

The 2001 budget has a proposal that would reduce the “out of pocket” costs of members living off base to 15% in 2001, with a phased reduction to no “out of pocket” costs by 2005. This decrease in “out of pocket” expenditures is estimated to eventually cost DoD \$3.1 billion dollars. In addition to the fairness issue, it is hoped the monetary increase will provide more incentives to live off-base. This will reduce the demand for on-base housing and the associated costly maintenance requirements.⁵⁰

By giving increased monies to personnel with dependents, the DoD penalizes single service members and increases overall system requirements. The penalty to the single service member is the requirement to perform the same work as members receiving support for their dependents. The burden on the system is felt through increased financial costs for medical programs, childcare plans, dependent housing, DoD

⁴⁸ Pat Towell, “Clinton’s Boost to Pentagon Budget Seen On Hill As Just A First Step,” Congressional Quarterly Weekly, 12 February 2000, URL: <<http://ebird.dtic.mil/Feb2000?s20000215hill.htm>>, accessed Spring 2000, 2.

⁴⁹ Twiss and Martin, 5.

⁵⁰ Robert Burns, “Focus On “Quality of life” Improvements For Troops, Veterans,” *Fort Worth Star-Telegram*, 14 February 2000, URL: <<http://ebird.dtic.mil/Feb2000/e20000214focus.htm>>, accessed February 2000, 2.

dependent schools, increased Personnel Change of Station (PCS) move costs, and increased BAH allowances.

A difficult item to quantify is the incentive increase in the number of marriages the BAH system creates. Over the past six years this author interviewed over thirty enlisted Marines who expressed an opinion that the current BAH system fostered an increased incentive to marry. The increased funds for BAH were a reason given for the increased marriage incentive. The potential military spouse also has incentive to marry due to other benefits, to include medical, dental, benefits, commissary and exchange privileges, and other amenities available to military dependents. Additionally, for junior enlisted personnel, marriage can be a means to escape barracks life and live off-base.

To contrast, imagine if the system had incentive pay for personnel who did not marry. In 1993, Marine Commandant General Mundy was intensely criticized by the media, DoD officials, and Congress for advancing a policy that restricted the recruitment of married personnel.⁵¹ The political fallout was overwhelming, as it would be if there were incentive pays for remaining unmarried. Yet, offering incentive pay for marrying goes unchallenged.

The marriage subject is a sensitive one due to our political environment. The services no longer broach the subject of prohibiting or frowning upon marriages by junior enlisted personnel. The issue of whether married or unmarried personnel are better for the DoD is not the point of this paper; the issue is equitable pay for equitable work, while providing the proper incentives for men and women to enlist and remain in the service.

⁵¹ Bill McAllister and Barton Gellman, "Aspin Reverse Ban on Married Marines," *Washington Post*, 12 August 1993, A01.

BAH Changes

Making changes to the BAH system can be difficult for a number of reasons. As discussed, BAH is an untaxed portion of compensation. Proposals to simply roll BAH into Basic Pay and allow the member to be responsible for his or her own housing are clouded by the tax issue. Specifically, there is confusion over whether BAH is an allowance or compensation. This confusion manifests itself in areas such as divorce alimony computations, tax status of BAH, and retirement calculations. Currently BAH is not part of the retirement formula. If all compensation elements were combined to form a single salary, how would that effect retirement percentages? How would the lost tax savings from BAH's non-taxable status be recouped? A solution would be to give tax deductions to military members to offset the loss of the BAH deduction.⁵² As for retirement compensation, the percentage of salary for computation could be reduced as well.

These solutions seem simple but are politically difficult to implement. This is partly due to the difficulty in articulating the argument and explaining the rationale for change. The main political challenge would be the perception that Congress would be increasing taxes and reducing retirement benefits for military members.

The long history of providing housing when none was available from the private sector is still in effect. This legacy practice continues to prove resistant to change. These cost burdens underscore the reasoning that corporations use in only providing compensation and not physical housing to its employees. Providing physical housing is not a cost effective business practice. Combining BAH with basic pay to create a

⁵² Bruder, 16.

simplified compensation system would make DoD salaries more visible and give more “housing” choices to the individual service member as well as making a more equitable compensation model for long term retention.

Basic Allowance for Subsistence (BAS)

BAS is the 3rd pillar of military compensation. It is provided to cover the costs of a service member’s food requirement. The practice of providing BAS is rooted in the same 1947 compensation model as Basic Pay. BAS’s advantage is that it is considered an allowance and is **untaxed**.⁵³

The intricacies of how service members are entitled to the various rates and requirements of BAS are beyond the scope of this paper. BAS is one area in which enlisted personnel are compensated higher than officers. The standard rate for commissioned officers is \$157.26 per month, but for enlisted personnel it varies from \$207.90 to \$336.30.⁵⁴ The sometimes-controversial element of BAS is that personnel assigned to a barracks are assigned a “meal card” and expected to eat in government dining facilities, thus forfeiting their BAS. Typically, the dining facility / meal card arrangement is financially cheaper for the member but removes the element of choice.

Retirement Pay

The last pillar of DoD compensation is retirement pay. Military personnel are only eligible for retirement pay after twenty years of service. At twenty years of service they are entitled to 50% of the average of their final 3 years of basic pay. After twenty years the retirement pay computed percentage amount of base pay linearly increases to a

⁵³ *Army Times*, “Basic Pay,” 2.

⁵⁴ *Ibid*, 2.

maximum of 75% at 30 years of service. For personnel not remaining in twenty years there is no retirement pay. This creates a situation known as "Golden Handcuffs," theoretically enticing personnel to remain for twenty years of service. The current system offers no programs for employee contributions or investment control of the means in which the retirement funds are accrued.

As an interesting comparison, 1987 was the year that federal employees were given their own 401(K) plan. It is titled Thrift Savings Plan (TSP) and is modeled after successful plans in the civilian sector. The implementation of the plan was spurred on by the inability of the federal system to retain highly qualified employees due to deficiencies when compared to civilian plans.⁵⁵

The proposal to offer an enhanced retirement system or a vesting program to military personnel is not a new one. Of the many pieces of reference material recommending change to the DOD compensation system, one of the more interesting is a work written in 1970 titled "The Report on the President's Commission for an All Volunteer Force." Of note, those who worked on the report were Thomas Gates, Milton Friedman, and Alan Greenspan. This report had one main purpose: to establish a baseline for the institution of the All-Volunteer force.⁵⁶ One of the main recommendations of the report was to allow employee contributions to their retirement account and an introduction of partial vesting after five years of service. This was also recommended

⁵⁵ Patricia Tervo, employed by the Office of Federal Human Resources, interview by author, December 2000.

⁵⁶ Thomas Gates, *Report on the Presidents Commission for an All-Volunteer Force* (Washington, DC: GPO, 1970), 1. Thomas Gates was the 7th Secretary of Defense. Milton Friedman is a noted U.S. Economist. Alan Greenspan was a successful businessman and banker who later chaired the Federal Reserve.

due to the belief that it would be equitable and desireable to give military members the same retirement rights as civil service employees.⁵⁷

As with the recommended changes to the salary system, there is a tremendous amount of information on proposed changes to the DoD military personnel retirement system. A 1998 Rand study on early vesting programs showed increased up front costs for DoD but overall long-term savings. Additionally, the data depicts the various options and choices the individual service member can make.⁵⁸

Part of the 2001 National Defense Act authorized the administration discretion to,...“propose a voluntary savings investment plan for military personnel, similar to the popular 401(k) plans available to many private-sector employees.” The plan was not proposed in the budget because congressional budget rules require DoD to make cuts in other areas to compensate for lost tax revenue.⁵⁹ There is now offsetting legislation proposed for 2002 that would fund the authorized 401(K) plan for military members.⁶⁰

Given the current state of the economy, it is difficult to imagine a successful company that only offers a retirement plan that is vested after twenty years. The DoD needs this change to compete for quality personnel. An additional and related consideration would be the ability to separate personnel at earlier stages of the career in order to effectively manage MOS personnel numbers. This would provide some level of retirement benefits for personnel not retained to a twenty-year retirement. This would be in contrast to the traditional practices of retaining personnel of O-4 / E-6 and above rank

⁵⁷ *Ibid*, 62.

⁵⁸ Beth Asch, Richard Johnson, and John T. Warner, “Reforming the Military Retirement System,” Rand Abstract, URL: < <http://www.rand.org/publications/MR/MR748> >, accessed January 2001, 1-6.

⁵⁹ Pat Towell, 2.

⁶⁰ Defense Science Board, 70.

to twenty years retirement, regardless of MOS needs. The practice of retaining personnel above a certain rank to twenty years results from the heritage of an earlier era of protecting the service member due to no other retirement options. If there were overages or non-needed MOS fields, the department would have more control of force with a retirement system that vested after five years. Earlier vesting would be more flexible in facilitating early separations while offering some retirement benefits.⁶¹

Challenge to Change

Reaching compromise between the services with regard to changes in compensation, restructuring of the basic allowance for housing (BAH), increasing retirement plans, and many other modifications, is very difficult. Each service has different needs, recruiting goals, and retention policies for certain occupational skills.

To illustrate, imagine asking the Marine Corps to increase pay levels for their first-term enlisted members. The Marines have a turnover rate in the junior enlisted combat arms ranks due to a requirement to maintain youth and vigor. A proposal to increase the wages for first-term enlistments would possibly be met with reluctance by USMC budget planners. The reluctance is due to the cost savings from a high turnover rate and a conflicting secondary goal of using the saved funds to finance programs or equipment requirements.⁶² In contrast, the USAF might receive the idea of increased first-term wages more favorably due to increased first-term retention goals. The increased first-term retention goals are due to a requirement for a more experienced and

⁶¹ Asch, 3.

⁶² The financial savings is achieved due to the lower salaries of less experienced personnel.

technical force; for savings in recruitment and training might justify the inherent higher costs.

A possible solution would be for each service to control the structuring of its pay grades to meet its goals. Services do not have that type of decision-making authority today. DoD continues to work with the “one size fits all” approach for all service pay grades as established in the late 1940s.

Traditionally, “fixes” to the DoD pay system have come in the form of across-the-board pay increases and not structural changes. These “fixes” have not been on any predetermined schedule, but usually result from increased publicity and DoD military service testimony identifying a shortfall. Predictably, the pay increases have been responses to up-swings in the U.S. economy and not proactive events.⁶³ Obviously these types of solutions offer no alternatives to retain personnel **prior** to compensation gaps developing and personnel departing. These solutions are only as effective as the proverbial shutting of the gate after the horse has left the barn.

In 1999, the Senate Armed Service Committee (SASC) proposed an amendment to section 1009 of Title 37, U.S. Code that would make future military pay raises permanently equal to the Employment Cost Index (ECI) plus one – half percent. This method of determining pay raise has been prevalent in the civilian and federal pay communities for many years. Of note, though the use of the ECI as a compensation comparison is fairly common, linking it to legislated mandatory pay increases is a new development.⁶⁴ While this type of pay raise is a step in the right direction, it still remains

⁶³ LtCol Frances C. Martin, USAF, “Uncompetitive Military Compensation Adversely Affects Readiness,” URL: < <http://www.au.af.mil/8/awc/98-167.pdf> >, accessed December 2000, 4-7.

⁶⁴ Warner, 3.

an across-the-board system. This does not address the challenges of retaining personnel with highly developed technical skills, as some military occupation specialties (MOS) require. A change to a skill-based pay system would aid in the retention of these type personnel.

Skill Pay

Skill pay, as opposed to a common base pay, is another controversial change proposal to the current compensation system. Returning to the discussion of the design of the system in 1947, it is important to remember skill requirements and abilities have changed greatly since that time. The current DoD wide system is based on an “up or out” philosophy with a primary goal of turning over the force to maintain youth and vigor in the combat arms structure.⁶⁵ In 1972, 28 years ago, Steven Canby wrote on DoD’s perceptions of base pay as opposed to skill pay.

The military has preferred in recent years a single wage and has opposed differential pay because of its sensitivity to discrimination against the less skilled but more burdensome combat arms. Pressure of events from high losses among technical personnel has forced limited acceptance of differential pays for career personnel in the form of proficiency pay and variable reenlistment bonuses.⁶⁶

Fairness is a sensitive theme of the skill-pay concept. Due in large part to U.S. history, men in the combat arms field are viewed as the cornerstone of the armed forces. Quite often, skill pay for a technical MOS is viewed as unfair to the less skilled line soldier who may have to participate in close combat. Today’s reality is that the DoD is competing with the corporate sector for personnel resources. In regards to specialized

⁶⁵ Bruder, 7.

⁶⁶ Steven Canby, *Military Manpower Procurement; A Policy Analysis*, Lexington Books, Lexington MA, 1972 p. 32. quoted in LtCol J.A. Bruder, USMC, *The Department of Defense Military Manpower System; Wartime Assumptions-Peacetime Conditions*, CMC Fellow (Santa Monica, CA: RAND, June 2000), 8.

MOS fields, it is doubtful that financial resources are available to raise the wages of **all** servicemen in order to match the higher wages available in the civilian sector for certain technical MOS fields. It will be difficult to make the “one size fits all” approach affordable due to the unprecedented competition the services are facing for the quality people filling the ranks.⁶⁷ A 1996 Rand study identified that the combat arm population of the DoD had shrunk to fewer than 20% of the active force. Conversely, supply, clerical, and technical occupations had risen to over 80% of the active force.⁶⁸ Approximately 30% of USA and USMC enlisted forces are in combat arms fields. Only 10% of USN and USAF personnel are in combat arm fields.⁶⁹

Compensation Recommendations

The following, from 1970, is “The Report of The Presidents Commission On An All-Volunteer Armed Force” opinion of the DoD compensation system:

Military pay is a conglomeration of current and future pay and benefits that are difficult to enumerate and even more difficult to measure and evaluate. Military pay lacks visibility. It functions as a continuous source of controversy. It is inequitable. It is inefficient in attracting and retaining desired personnel.⁷⁰

Except for the mentioned pay increases, the system that the commission commented on in 1970 (conceived in 1947) is still intact today. The commission’s recommendation for improvement was to combine base pay with allowances for quarters and subsistence to “provide a salary.”⁷¹

⁶⁷ Joint staff, Readiness Panel Feeder Issues, subject: Recruit and Retain,” 2.

⁶⁸ Sheila Kirby & Harry Thie, *Enlisted Personnel Management; A Historical Perspective*, Rand NDRI, 1996 p. 16, with updates, quoted in LtCol J.A. Bruder, USMC, *The Department of Defense Military Manpower System; Wartime Assumptions-Peacetime Conditions*, CMC Fellow (Santa Monica, CA: RAND, June 2000), 5.

⁶⁹ Defense Science Board, note 34, 73.

⁷⁰ Gates, 61.

⁷¹ *Ibid*, 61.

As with any profitable U.S. company, the DoD needs a system that can plan for personnel crisis and take measures to retain highly trained and needed personnel **prior** to their separation. The advantages of such a system seem obvious. Unfortunately, the system has remained unchanged since the inception of the All-Volunteer Force. If a skill pay system were implemented, DoD would more effectively compete for labor resources in the 21st century.⁷² More effective competition for personnel would equal more opportunity to positively affect retention rates. With increased retention would occur other advantages. The DoD would have more choice in the personnel to retain as opposed to “making do” with only those who chose to remain in military service. A prominent advocate of skill pay is USAF Chief of Staff Gen. Michael Ryan. In a May 2000 interview in the *Air Force Times*, he proposed to pay airmen by skill level to provide more flexibility to the USAF compensation system.⁷³ The Defense Science Board Task Force published a report on Human Resources Strategy in February 2000. The report recommended, “...”a restructuring of the military pay system to further emphasize performance and skills.” This report was part of an effort to develop DoD force shaping tools appropriate for the 21st century.⁷⁴

Proposing recommendations to change the current compensation system is not a new concept. The recognition of the lack of an overarching organization to enact human resource management is not new. The Quadrennial Review of Military Compensation (QRMC), in existence since 1966, is a DoD review to evaluate compensation practices.

⁷² Defense Science Board, xii.

⁷³ Bruce Rolfsen, “Pay Airmen for Skills not Rank, Ryan says,” *Air Force Times*, 8 May 2000, 19. quoted in LtCol J.A. Bruder, USMC, *The Department of Defense Military Manpower System; Wartime Assumptions-Peacetime Conditions*, CMC Fellow (Santa Monica, CA: RAND, June 2000), 14.

⁷⁴ Defense Science Board, XII.

A proposal was made by the 1996 QRM C to construct a human resources board acting under the guidance of USD(P&R) to oversee strategic human resource management. The QRM C recognized that as policies are currently written neither the USD(P&R) or the services have the flexibility to,...“tailor practices to enhance their effectiveness.”⁷⁵

Current military compensation policies offer much room for refinement and improvement. This paper does not offer the definitive way to structure compensation practices for DoD; rather, the purpose is to identify the requirement. Rand, the QRM C, the Defense Science Board, and other analytical organizations have a wealth of material analyzing ways to structure military compensation. The background data from these organizations could be used to structure systems to align DoD compensation practices with those of the civilian sector and advance the RBA in human resource management. The traditional practice of implementing temporary solutions does not provide the foundation for progression to the 21st century. The longer DoD delays in restructuring the system, the greater the challenge of competing for and retaining quality personnel.

⁷⁵ 8th Quadrennial Review of Military Compensation (QRM C),”Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach,” <URL: <http://www.dtic.mil/stinet/special/qrmc/index.html>>, accessed December 2000, 47.

Chapter 6

Conclusions and Recommendations

*He who does not remember the past is condemned to repeat it.*⁷⁶

-George Santayana (1863 –1952)

Arguably, the “down cycle” the DoD is experiencing in regards to recruiting and retention is neither unexpected nor permanent. Since 1970, and the advent of the All-Volunteer Force, these recruiting and retention challenges recurred in at least four major cycles. These cycles coincided with major increases in the DoD military pay table as occurred in 1972, 1982, 1989, and 2001.⁷⁷ In each of these instances, increasing the base pay table allowed DoD to weather the personnel storm and await the next “down” cycle before taking further substantive action.

The implication of this type of approach or philosophy is that “labor” is just another resource to be husbanded. It appears as if no thought is given to the impact of losing highly trained personnel. The disconcerting portion of this policy is that no analysis is conducted of the “what ifs.” The “what ifs” are the talented personnel that leave the DoD during these down cycles. What positive contributions could these personnel have made if they were still in the armed forces? The ramifications of the “what ifs” to the direction and leadership of the service can be quite thought provoking.

⁷⁶ As quoted in LtCol. Frances C. Martin, 24.

⁷⁷ *Ibid*, 3-7.

Comparing this type personnel policy to one of any successful Fortune 500 company is intriguing as well. Microsoft cannot maintain its leading role in software development by continuously reacting to the departure of its trained personnel. Microsoft must be proactive in the retention of personnel to insure the future of the company.

This once again raises the emotional issue of whether DoD is a business. As mentioned by many speakers during academic year 2000 – 2001 at Marine Corps Command and Staff College “the name of the game inside the beltway is money.” In some ways the discussion of whether DoD is a business is somewhat moot. Today’s reality is that the battle for resources (money) in regards to DoD programs is orchestrated like a business. Congress and DoD program managers do not use patriotic arguments to make decisions. Decisions are made on resource availability, impact on other programs, cost effectiveness, and economic efficiency, i.e. business principles. This is how future personnel decisions need to be made.

The upcoming QDR needs to seize the initiative to make effective change to the human resource management policies of the DoD. Specifically, an **empowered** department needs to be created with directive, not advisory, authority to change current DoD personnel programs and policies. The services need to be removed from the conflicting budgetary position of having to choose whether to fund personnel or programs.

The 2000 Defense Science Board Task Force on Human Resource Strategy provides analysis on the challenge for DoD.

It is not sufficient to adjust DoD policies and practices in temporary measures to meet the most critical shortfalls identified today. A sustained transformation in the character and management of the human element of the force is crucial – one that keeps pace with the rapid changes in the national security environment and in society at large. Making the needed changes will be difficult and complex. But without such a transformation, the Department's human resource problems will become much worse. Successful transformation is necessary in order to maintain the needed force for the 21st century. Strong, focused leadership, with clearly assigned responsibilities for implementation, is essential for success.⁷⁸

The needed transformation the Defense Science Board is writing of is a Revolution in Business Affairs.

DoD needs a **Revolution in Business Affairs** in human resource management to affect areas such as skill pay, BAH reform, and vesting programs in order to create an environment where military members want to continue to serve. The potential vehicle to implement the RBA is the 2001 QDR. DoD needs the capability to decide whom to retain and whom to separate, as opposed to accepting whoever remains with the department as its future force.

⁷⁸ Defense Science Board, xiii.

Appendix A

The following is a summary of Secretary of Defense Cohen's Message, which served as a preface and executive summary to the 1997 QDR.

- * The Army will retain 10 active, combat-ready divisions. It will also accelerate its Force XXI modernization plan, which will revolutionize combat capability by enhancing battlefield awareness through modern information technology. A reduction of some 15,000 active duty personnel will be carried out by deactivation, consolidation, and realignment of headquarters and support facilities to improve overall support to the combat organizations.
- *The Army will also restructure its Reserve component. It will shed some combat structure that provided for strategic depth during the Cold War, but which is now excess. It will also accelerate conversion of some units from combat to combat support and combat service support roles, relieving an important warfighting shortfall and enhancing the ability to support state missions. These adjustments will result in a Reserve component end strength reduction of some 45,000 personnel.
- *The Navy will retain 12 carrier battle groups and 12 amphibious ready groups, but will reduce the number of surface combatants in the fleet from 128 to 116. The reduced size of the surface fleet will be offset by newer and more capable systems now coming on line. The Navy will reduce the number of attack submarines from 73 to 50, reflecting changes in requirements. It will reduce the number of F/A-18E/F aircraft to be procured from 1000 to 548; transition to the Joint Strike Fighter (JSF) as soon as possible, with the goal of initial Navy production in fiscal year 2008; and retain the option to procure additional F/A-18 E/F up to a maximum of 785 if Joint Strike Fighter development requires more time. These fleet reductions, combined with streamlining of overseas infrastructure and the transfer of some combat logistics ships and functions to the Military Sealift Command, will allow the Navy to reduce active and Reserve end strength by 18,000 and 4,100 personnel respectively.
- *The Air Force will consolidate fighter and bomber units to streamline its command structure and shift one active component fighter wing to the Reserve component. It will pursue an aggressive outsourcing plan that accelerates competition of support functions. The Air Force will reduce its force structure for continental air defense and handle the U.S. air sovereignty missions with other forces. The fighter forces available for deployment to support the strategy will be 12 active and eight Reserve fighter wing equivalents. These initiatives will allow the Air Force to realize a reduction of approximately 27,000 active duty personnel. The Air Force will proceed with the F-22 aircraft program to replace the F-15 C/D air superiority capability and perform air-to-ground missions. Consistent with its greater capability, the total number to be procured will be reduced from 438 to 339.
- *The Marine Corps will take modest reductions in end strength through a restructuring of support responsibilities. The Corps will maintain a three Marine Expeditionary Force capability to support the strategy. MV-22 tiltrotor aircraft procurement will be accelerated to meet the urgent need to replace aging medium-lift capability, while the total number procured will be reduced to 360, consistent with the system's superior capability.
- *The total active duty end strength will be reduced to 1,360,000 (down 36 percent from 1989), with 835,000 in the Reserve forces (down 29 percent from 1989). Civilian personnel will decline to 640,000 (down 42 percent from 1989).

- *We have decided to slow the Army's Theater High Altitude Area Defense System because of serious technical problems. Shifting the deployment date from 2004 to 2006 improves the stability of the program, lowers risk, and allows us to explore using common components with the Navy Theater-Wide missile defense program. Other theater missile defense programs remain on track.
- *National Missile Defense (NMD) remains a high priority. The administration and Congress have agreed to keep this program on an accelerated research and development path aimed at creating the option to make a decision on deployment possible as early as fiscal year 2000, if the threat warrants. The goal of the program is to be able to deploy an initial capability within three years after the decision on deployment is made. The QDR analysis concluded that the fiscal year 2000 target could not be met within the current program budget. We are directing additional funds to NMD, but even with additional funds, NMD will remain a program of high schedule and technical risk.
- *The QDR highlighted the danger to our nation and forces of "asymmetric threats," ranging from nuclear, biological, and chemical weapons to attacks via information warfare and terrorism. We will give increased focus and funding to countering such threats.
- *The QDR studied a number of options regarding strategic nuclear forces.
- *Based on QDR analysis of our future needs...the department will request two additional rounds of Base Realignment and Closure (BRAC).
- *Finally, a series of Defense-wide program adjustments will free up funds for increased investment in key programs.⁷⁹

⁷⁹ Cohen, Quadrennial Defense Review, viii.

Appendix B

Department of Defense DIRECTIVE NUMBER 5124.2 October 31, 1994

DA&M

SUBJECT: Under Secretary of Defense for Personnel and Readiness (USD(P&R))

References: (a) Title 10, United States Code

(b) DoD Directive 5124.2, "Under Secretary of Defense for Personnel and Readiness," March 17, 1994 (hereby canceled)

(c) DoD 5025.1-M, "DoD Directives System Procedures," December 1990, authorized by DoD Directive 5025.1, June 24, 1994

(d) [DoD Directive 8910.1](#), "Management and Control of Information Requirements," June 11, 1993

1. REISSUANCE AND PURPOSE

Under the authority vested in the Secretary of Defense by Sections 113 and 136 of reference (a), this Directive reissues reference (b) to update the responsibilities, functions, relationships, and authorities of the USD(P&R).

2. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant Commands, the Office of the Inspector General of the Department of Defense, the Uniformed Services University of the Health Sciences, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "the DoD components").

3. DEFINITIONS

3.1. Reserve Components. Refers collectively to the Army National Guard of the United States, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard of the United States, Air Force Reserve, and Coast Guard Reserve, when the Coast Guard is operating as a Service of the Department of the Navy.

3.2. Total Force. The organizations, units, and individuals that comprise the Defense Department's resources for implementing the national security strategy. It includes DoD Active and Reserve military personnel, military retired members, DoD civilian personnel (including foreign national direct- and indirect-hire, as well as non-appropriated fund employees), contractor staff, and host-nation support personnel.

4. RESPONSIBILITIES AND FUNCTIONS

The Under Secretary of Defense for Personnel and Readiness is the principal staff assistant and advisor to the Secretary and Deputy Secretary of Defense for Total Force management as it relates to readiness; National Guard and Reserve component affairs; health affairs; training; and personnel requirements and management, including equal opportunity, morale, welfare, recreation, and quality of life matters. In this capacity, the USD(P&R) shall:

4.1. Develop policies, plans, and programs for:

4.1.1. Total Force personnel and their allocation among DoD Components and between the Active and Reserve components to ensure efficient and effective support of wartime and peacetime operations, contingency planning, and preparedness.

4.1.2. Reserve component affairs to promote the effective integration of Reserve component capabilities into a cohesive Total Force.

4.1.3. Health and medical affairs sufficient to provide, and maintain readiness to provide, medical services and support to members of the Armed Forces during military operations, and to provide medical services and support to members of the Armed Forces, their dependents, and others entitled to DoD medical care.

4.1.4. Recruitment, training, equal opportunity, compensation, recognition, discipline, and separation of all DoD personnel, to include both military (Active, Reserve, and retired) and civilian.

4.1.5. Interagency and intergovernmental activities, special projects, or external requests that create a demand for DoD personnel resources.

4.2. Serve as OSD focal point for readiness issues; develop policies and processes DODD 5124.2, October 31, 94 to ensure forces have sufficient readiness to execute the national military strategy;

oversee Total Force personnel and medical readiness; and coordinate with other Principal Staff Assistants and cognizant officials in the Office of the Chairman of the Joint Chiefs of Staff and in the Military Services on other aspects of readiness.

4.3. Analyze the Total Force structure as related to quantitative and qualitative military and civilian personnel requirements, utilization, readiness and support.

Administer and implement controls over military and civilian personnel strengths for all DoD Components.

4.4. Review and evaluate the requirements of the Defense Acquisition Board's major defense acquisition programs and proposed weapon systems for personnel, training, and readiness implications, and the implications of weapon systems maintainability for qualitative and quantitative personnel requirements and for readiness.

4.5. Formulate policy for and ensure coordination of DoD Noncombatant Evacuation Operations (NEO).

4.6. Participate in those planning, programming, and budgeting activities that relate to assigned areas of responsibility.

4.7. Serve on boards, committees, and other groups pertaining to assigned functional areas and represent the Secretary of Defense on personnel, readiness, Reserve component, health, and compensation matters outside of the Department.

4.8. Perform such other functions as the Secretary of Defense may prescribe.

5. RELATIONSHIPS

5.1. In the performance of assigned functions and responsibilities, the USD(P&R) shall:

5.1.1. Report directly to the Secretary and Deputy Secretary of Defense.

5.1.2. Exercise authority, direction, and control over:

5.1.2.1. The Assistant Secretary of Defense for Force Management Policy (ASD(FMP)).

DODD 5124.2, October 31, 94 to ensure forces have sufficient readiness to execute the national military strategy; oversee Total Force personnel and medical readiness; and coordinate with other Principal Staff Assistants and cognizant officials in the Office of the Chairman of the Joint Chiefs of Staff and in the Military Services on other aspects of readiness.

4.3. Analyze the Total Force structure as related to quantitative and qualitative military and civilian personnel requirements, utilization, readiness and support. Administer and implement controls over military and civilian personnel strengths for all DoD Components.

4.4. Review and evaluate the requirements of the Defense Acquisition Board's major defense acquisition programs and proposed weapon systems for personnel, training, and readiness implications, and the implications of weapon systems maintainability for qualitative and quantitative personnel requirements and for readiness.

4.5. Formulate policy for and ensure coordination of DoD Noncombatant Evacuation Operations (NEO).

4.6. Participate in those planning, programming, and budgeting activities that relate to assigned areas of responsibility.

4.7. Serve on boards, committees, and other groups pertaining to assigned functional areas and represent the Secretary of Defense on personnel, readiness, Reserve component, health, and compensation matters outside of the Department.

4.8. Perform such other functions as the Secretary of Defense may prescribe.

5. RELATIONSHIPS

5.1. In the performance of assigned functions and responsibilities, the USD(P&R) shall:

5.1.1. Report directly to the Secretary and Deputy Secretary of Defense.

5.1.2. Exercise authority, direction, and control over:

5.1.2.1. The Assistant Secretary of Defense for Force Management Policy (ASD(FMP)). DODD 5124.2, October 31, 94

36. AUTHORITIES

The USD(P&R) is hereby delegated authority to:

6.1. Establish and allocate civilian personnel authorizations of the DoD Components and review and approve military and civilian personnel authorization changes during program execution.

6.2. Issue DoD Instructions, DoD Publications, and one-time directive-type memoranda, consistent with DoD 5025.1-M (reference (c)), that implement policy approved by the Secretary of Defense in assigned fields of responsibility. **Instructions to the Military Departments shall be issued through the Secretaries of those Departments.** Instructions to Unified Combatant Commands shall be communicated through the Chairman of the Joint Chiefs of Staff.

6.3. Obtain reports, information, advice, and assistance, consistent with DoD Directive 8910.1 (reference (d)), as necessary to carry out assigned functions.

6.4. Communicate directly with the Heads of DoD Components. Communications to the Commanders of the Unified Combatant Commands shall be transmitted through the Chairman of the Joint Chiefs of Staff.

6.5. Communicate with other Government officials, representatives of the legislative branch, members of the public, and representatives of foreign governments, as appropriate, in carrying out assigned functions. DODD 5124.2, October 31, 94.

EFFECTIVE DATE This Directive is effective immediately. DODD 5124.2, October 31, 94⁸⁰

⁸⁰ DoD Directive 5124.2.

Appendix C

Acronyms

ASD(FMP)	Assistant Secretary of Defense for Force Management Policy
BAH	Basic Allowance for Housing
BAQ	Basic Allowance for Quarters
BEQ	Bachelor Enlisted Quarters
CBO	Congressional Budget Office
CORM	Commission of Roles and Missions
DoD	Department of Defense
DRI	Defense Reform Initiative
ECI	Employment Cost Index
HASC	House Armed Services Committee
JCS	Joint Chiefs of Staff
MOS	Military Occupation Specialty
NDAA	National Defense Authorization Act
OPTEMPO	Operational Tempo
OSD	Office of the Secretary of Defense
PCS	Personnel Change of Station (type of orders)
PERSTEMPO	Personnel Tempo
PPB	Planning, Programming, and Budgeting
QDR	Quadrennial Defense Review
QOL	Quality of Life
QRMC	Quadrennial Review of Military Compensation
RBA	Revolution in Business Affairs
RMA	Revolution in Military Affairs
SASC	Senate Armed Services Committee
TSP	Thrift Savings Plan
USA	United States Army
USAF	United States Air Force
USD(P&R)	Under Secretary of Defense, Personnel and Readiness
USMC	United States Marine Corps
USN	United States Navy
VHA	Variable Housing Allowance

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